

# The SACU Revenue Sharing Formula & Economic Diversification

The case of the Automobile Industry

# History of SACU RSF

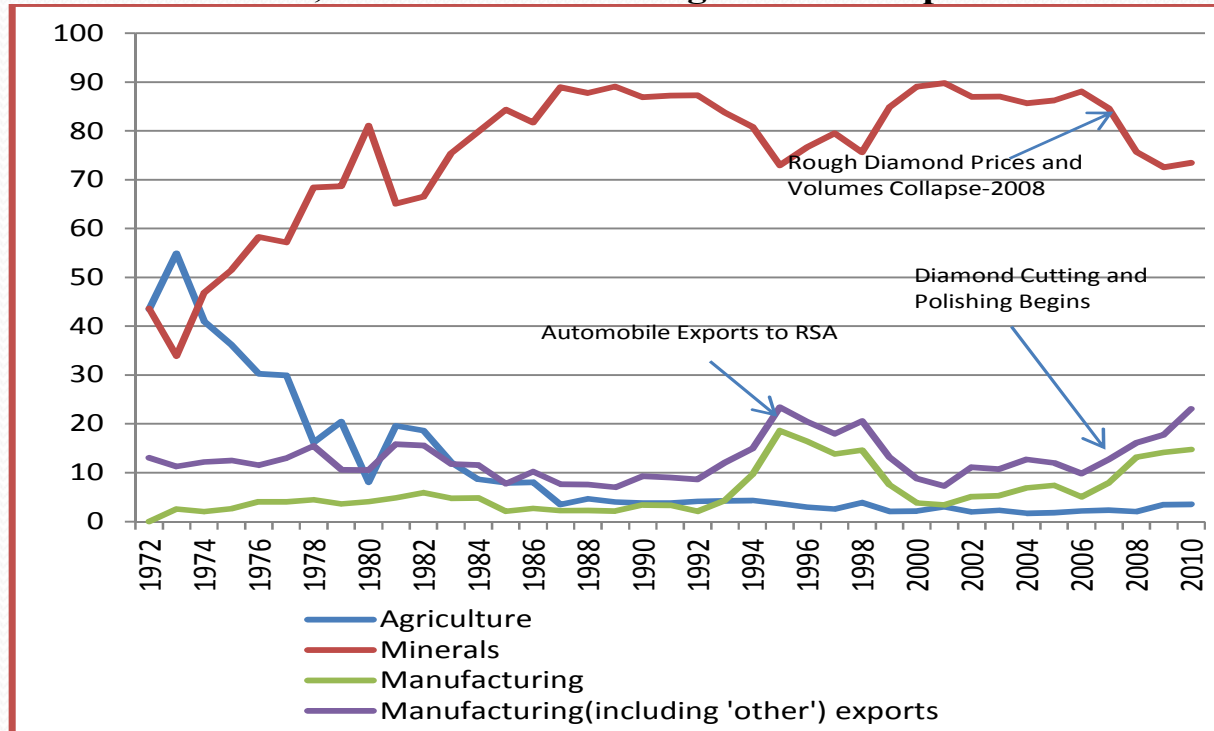
- First agreed in 1910 with the formation of the Union of South Africa- BLS members expected to join. BLS did not sign.
- First formula based distribution of revenues on a fixed proportion of total imports
- In 1969 with the independence of the BLS new formula based on share of **total BLS imports x1.42** ( and then a further 17% added). Why- SA needed to 'buy friends'. Made South Africa a residual claimant. SA set tariffs and BLS get revenue and this has not changed.
- Also agreed to a **secret protocol** in 1969 which meant that BLS could not use the external tariff for protection of an infant industry unless they could produce enough to supply 60% of the SACU market. No BLS could use the tariff- only SA.
- In 1994 renegotiated SACU after the end of apartheid – BLNS became de jure equal partners but RSF became even more skewed – customs component now **based on share of intra-SACU trade**.

# The RSF and Its Implications

- The RSF is a bell- weather. It is a reflection of the political changes that have occurred in southern Africa over a century.
- The BLNS receive much more than they would receive under the normal customs union revenue formula which are usually based on **the destination principle**. i.e. you get whatever you would have received from goods that were destined to your territory.
- All the BLNS are highly revenue dependent . Swaziland and Lesotho are 60-70% revenue dependent and Botswana currently 35% of total revenue in 2012/13. Similar to Namibia.
- All the BLNS have developed a compensation mindset. SACU, rather than being about development is about revenue to compensate the country for the cost raising effect of SACU. – Raises the question ‘ why stay in an arrangement forever that you need to be compensated for? ‘

# Botswana has not Diversified its Exports except briefly in the late 1990's

Shares of mineral, manufactured and agricultural exports 1972 to 2011



Source: CSO, various, and Authors' calculations

# Botswana's Automobile Industry Collapsed- Why

- One explanation - Mr Rautenbach was somewhat less than an entirely honest businessman.
- Explanation offered by President Masire.
- Hon Kitso Mokaila who was GM of Hyundai in 2000 said:

‘The business was sunk by the South African quotas. We could have survived with sales of 1,800 cars per month into South Africa but with a quota on 1,000 units we would certainly go broke.... The absence of profits of the company was a result of transfer pricing by Mr Billy Rautenbach. He bought all of the parts from Hyundai in Korea and made his profits off-shore.’

- Industry collapsed in 2000.

# SA subsidises auto exports and now subsidizes value added

- In 1994 tariffs in RSA was 115% for cars. Now 25%. The DTI in RSA wanted to restructure and make the auto industry internationally competitive. Introduced MIDP which from 1995 to 2012 subsidized exports (WTO compatible?) by providing duty remissions thru SACU. The MIDP was very successful – auto industry in RSA exported ZAR122 billion in 2013
- But MIDP lowered import duty on cars and parts and created even more imports.
- In 2012/2013 ZAR 16.9 billion was paid in duty rebates to auto firms – 83% of this was paid by BLNS and 17% by RSA. Botswana paid ZAR 5.2 billion or 32%



# Current Situation

- MIDP has been replaced by APDP which is based in value added not exports but still funded largely by SACU customs rebates. Subsidies continue but no data on value yet.
- Hyundai next month will establish a truck assembly plant in Gauteng using CKD techniques just like Botswana plant.
- In effect RSA is using the rebates to claw back some of the cost of the subsidies it pays to the BLNS.
- Auto industry wants to extend subsidies to truck and bus production – why not if BLNS pay!



# What do we do & what have we learned?

- We have RSA with an auto industry which the BLNS largely subsidize
- RSA has little incentive to reign in subsidies because it sees payments to BLNS under the customs component as excessive.
- Revenue sharing formula is need of drastic reform.
- Because it is based on share of intra-SACU imports we cannot expand SACU and we cannot deepen SADC from an FTA into a customs union. Mozambique cannot join
- Only way out is an eventual move to the destination principle with long adjustment. Swaziland and Lesotho are too dependent to adjust – need to negotiate fundamentally different political/economic arrangement
- Botswana and Namibia need to seek a ‘development agreement’ where SACU revenues are used to fund development projects. Needs 15 year phase in. Collapse of SACU RSF could be worse than the ‘end of diamonds’